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PORTO CERVO SHERPA MEETING
April 30-May 2, 1987

Summary Record

The third preparatory ("Sherpa") meeting for the Venice Economic Summit took place April 30-May 2, 1987 in Porto Cervo, Sardinia. Allen Wallis, the President's Personal Representative, represented the U.S. He was assisted by David Mulford, Assistant Secretary of the Treasury for International Affairs and by Stephen Danzansky, Senior Director for International Economic Affairs, NSC.

I. ECONOMIC TOPICS

1. Macroeconomic Situation

There was general consensus (reflected in Section I, p. 3 of the May 2 version of the thematic paper) on the current global macroeconomic situation. Since Tokyo, there is a stronger consensus among Summit countries on the need for continuing, close coordination of economic policy with a view to ensuring consistency of domestic policies and their international compatibility and ultimately achieving greater convergence of positive economic performance.

2. Economic Coordination

Sherpas were agreed on the measures which would promote sustained growth and external adjustment:

- o correction of world payments imbalances is the key medium-term objective;
- o surplus countries should strengthen domestic demand and open markets;
- o deficit countries should reduce fiscal deficits and strengthen competitiveness;
- o NICs with large external surpluses should reduce trade barriers and allow their currencies to reflect more fully underlying fundamentals;
- o budgetary discipline remains a valid medium-term objective - and a necessity for some Summit countries (e.g., U.S. and Italy);

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CONFIDENTIAL

-2-

- o structural adjustment is necessary to sustain non-inflationary growth and expand employment (notably in Europe);

Sherpas agreed that the policy coordination process, as outlined at Tokyo, is proving durable and effective. Further refinements will be carried out by Finance Ministers and Central Bank Governors with the technical assistance of the IMF Managing Director.

They also agreed that the G5-G7 issue should not be discussed by Heads of State/Government at Venice. The EC delegate said the EC Commissioner might absent himself from Summit discussions on financial matters in protest of the EC's exclusion from the G7. He added that the EC is considering whether to attend the Summit at all. From the discussion, it is clear that none of the Summit countries is willing to include the EC in the G7.

3. Trade

There was general consensus on the urgent need to resist rising protectionist pressures and dismantle trade-restrictive measures. The important role of the Uruguay Round in maintaining and strengthening the multilateral trading system was acknowledged. However, France and the EC resisted U.S. and Canadian suggestions that next year there be a Ministerial review of the progress in the negotiations. France and the EC argued that such a meeting would be used as an excuse to delay substantive negotiations; we and the Canadians feel a Ministerial review will give a necessary and timely political boost to the technical negotiations. This point will have to be reviewed further.

4. Debt

The Sherpas endorsed as the only acceptable approach the growth-oriented strategy launched by the U.S. in October 1985. This entails:

- o adopting comprehensive macroeconomic and structural reforms by debtor nations;
- o enhancement of lending by IFI's;
- o increased commercial bank lending.

While some debtor countries have made important, politically courageous progress, much remains to be done

CONFIDENTIAL

CONFIDENTIAL

-3-

structurally by debtor countries to promote growth. In addition, commercial banks and debtors should work together to develop a menu of options for financing the debt.

The Sherpas recognized that some of the poorest countries, particularly in Sub-Saharan Africa, need special treatment for their debt, largely held by governments. They will examine possible solutions in the IBRD, IMF and Paris Club. Most countries favored supporting a general capital increase for the World Bank but we resisted this on the ground that there is not yet a clearly demonstrated need, and that it would complicate our current efforts to obtain funding for IDA-VIII.

5. Agriculture

Sherpas accepted the analysis prepared by the OECD. Substantial differences remain on the appropriate policies to be advocated by the Summit. The French Sherpa is most resistant to a Summit call for expeditious and comprehensive negotiations on agriculture in the GATT, or indeed any separation of agriculture from other trade issues. The President will have to intervene personally if we are to achieve our objectives. (At the Tokyo Summit, Mitterand did not support his Sherpa's adamant position on agriculture.) The next Sherpa discussion on agriculture will be influenced heavily by the discussion at the OECD Ministerial May 12-13, where we will be represented by Secretaries Lyng, Baker, and Baldrige, Ambassador Yeutter and Deputy Secretary Whitehead.

6. Other Issues

(a) Energy: Italy, UK and Germany are extremely reluctant to discuss nuclear energy at Venice, fearing adverse political reactions at home. Rather than weaken the Tokyo statement on nuclear energy, these countries would prefer to say nothing. Japan submitted a text on energy which reflects many of the U.S. proposals. After the IEA Ministerial May 11 (where we will be represented by Secretary Herrington and Under Secretary Wallis), we will need to decide whether and how to raise the subject at Venice.

(b) Environment: To be discussed at May 15-18 Sherpa meeting.

(c) AIDS: To be discussed at May 15-18 Sherpa meeting. There were some suggestions that this is not an appropriate topic for an economic summit. The French Sherpa argued that cancer, cardiac disease, and tropical diseases, among others,

CONFIDENTIAL

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-4-

are more important. It was asserted strongly that the high incidence of AIDS in certain areas of Africa should not be alluded to for fear of offending African sensibilities.

(d) Human Frontiers: Nakasone will raise his Human Frontier proposal at Venice. If there is sufficient interest, Japan will undertake a year-long feasibility study and report back at the 1988 Summit.

(e) Technology Cooperation: There was no interest among other countries in raising the issue of international cooperation in high energy physics at Venice. The consensus was that adequate mechanisms exist, as evidenced by on-going international collaboration.

II. POLITICAL TOPICS

It was agreed that the Heads of State/Government would discuss political issues during dinner Monday, June 8. East-West relations (Soviet internal and foreign policies and arms control) will be the main topics. None of the Sherpas would commit to having a political statement until the results of the June 8 discussion were known. The French Sherpa emphasized that France will not endorse any negotiations to which it is not a party, and would not accept any "we think" statements, only "each of us thinks". Heads may wish to discuss other political topics, such as South Africa, although regional issues in the main will be reserved for discussion by Foreign Ministers at their separate dinner June 8. Only Canada favors a Venice statement on South Africa. The UK felt such a statement would be "inopportune and counterproductive." This view was shared by other countries.

The regional political issues suggested for discussion by Foreign Ministers include (not in ranked order):

- Terrorism
- Afghanistan
- Cambodia
- Middle East (prospects for peace conference)
- Iran-Iraq
- South Africa
- Latin America
- Korea
- Philippines
- China (suggested by Japan)

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-5-

On terrorism, all Sherpas accepted the work of the Experts' Group on refining and enlarging the Bonn Declaration. Their work is considered complete and the Group disbanded unless it gets a further mandate (possibly from Heads at the Venice Summit). Most countries agreed to consider sympathetically at Venice an additional declaration on terrorism. The U.S. agreed to send the Italian Political Director suggested language; the UK will also submit its ideas to the Italian Political Director. Italy has agreed to incorporate U.S., UK and Italian views into a draft to be discussed by Summit Political Directors May 15 in Venice.

At their meeting May 15, Political Directors will draft any statements they wish to propose to the Sherpas. Sherpas and Political Directors will discuss these over dinner May 15. The French Sherpa objected to the terrorism experts meeting with the Political Directors, or meeting again without a new mandate. The Italian Sherpa (as Chairman) ruled that any Political Director who wishes to may bring an expert to the May 15 meeting, and that any of the experts who wish to meet informally before the Political Directors' meeting may do so.

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